

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 STR-07 FTC-01 COME-00  
SP-02 ICA-11 AID-05 NSC-05 TRSE-00 SS-15 OMB-01  
CEA-01 ITC-01 L-03 H-01 CIAE-00 DODE-00 INR-10  
NSAE-00 PA-01 AF-10 /108 W  
-----125651 261441Z /41

R 261355Z MAY 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 8897  
USDA/FAS WASHDC  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
USMISSION GENEVA  
AMCONSUL BREMEN

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USEEC ALSO FOR EMBASSY; USMTN ALSO FOR MISSION; FAS FOR  
OYLOE, ANDREWS AND FRINK

E.O. 11652: N/A  
TAGS: EAGR, GW  
SUBJECT: TOBACCO TEAM VISIT

1. SUMMARY: THE TOBACCO TEAM WAS VERY ENCOURAGED  
DURING THEIR VISIT TO GERMANY BY THE ATTITUDE OF FRG  
OFFICIALS TO PRESS FOR A REMOVAL OF THE "WRAPPER TARIFF",  
SEEK A BALANCED CIGARETTE TAX HARMONIZATION POLICY  
WITHIN THE EC, AND ASSURANCES THAT ANY REVALUATION  
OF THE EUA WOULD TAKE INTO ACCOUNT THE U.S. CONCERN  
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THAT ALL U.S. TOBACCO WOULD BECOME DUTIABLE AT A  
HIGHER RATE (I.E. 45 U.A./100 KILO) UNLESS THE  
WRAPPER TARIFF WAS ELIMINATED OR CHANGED. GERMAN  
CIGARETTE MANUFACTURERS AND LEAF MERCHANTS ALSO PLEDGE  
THEIR FULL SUPPORT FOR THE U.S. TOBACCO INDUSTRY'S  
POSITION.

2. IN A MEETING WITH HIGH LEVEL MINFIN AND MINECON OFFICIALS, THE U.S. TOBACCO TEAM EXPRESSED THEIR CONCERN ABOUT "INTENTIONAL OR UNINTENTIONAL" EFFECT THE EC TOBACCO CAP HAS HAD ON IMPORTS OF U.S. TOBACCO. IT WAS POINTED OUT THAT THE U.S. INDUSTRY DOES NOT OBJECT TO THE EC ESTABLISHING A SUPPORT PROGRAM TO PROTECT EC TOBACCO PRODUCERS. HOWEVER, THEY DO OBJECT TO THE SYSTEM OF PREFERENCES WHICH HAS DEVELOPED OVER THE PAST FEW YEARS (I.E. ACP AND LOME PREFERENCES AND SPECIAL QUOTAS TO LDCS AND FORMER COLONIES) WHICH GRANTS SPECIAL ACCESS TO THE EC TOBACCO MARKET FOR VIRTUALLY ALL TOBACCO PRODUCING COUNTRIES EXCEPT THE U.S., CANADA, AND SOUTH AFRICA. U.S. REPRESENTATIVES POINTED OUT THAT ALL THEY WERE SEEKING WAS FAIR AND EQUAL TREATMENT FOR U.S. TOBACCO EXPORTED TO THE EC. THEY ASKED FOR FRG SUPPORT FOR THE ELIMINATION OF THE WRAPPER TARIFF, A BALANCED TAX HARMONIZATION POLICY AND FOR A REDUCTION IN THE EC DUTY ON TOBACCO TO 28 U.A./100 KILOGRAMS (I.E. LOWEST SPECIFIC MINIMUM NOW BEING CHARGED).

3. MINECON OFFICIALS STATED THAT THE U.S. INDUSTRY POSITION ON THE WRAPPER TARIFF WAS IDENTICAL WITH THEIR OWN AND THAT THE FRG WOULD SUPPORT AN ELIMINATION OF THE WRAPPER TARIFF IN THE MTN. THEY RECOGNIZED THERE WOULD BE OPPOSITION FROM ITALY AND LIMITED OFFICIAL USE

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PERHAPS FRANCE BUT HOPED TO SUCCEED. THEIR FALLBACK POSITION, IF ITALY IS SUCCESSFUL IN RETAINING SOME SORT OF CIGAR WRAPPER PROTECTION WOULD BE TO SET THE UPPER THRESHOLD OF THE TARIFF HIGH ENOUGH SO AS NOT TO INTERFERE WITH IMPORTED CIGARETTE LEAF. MINECON OFFICIALS RECOGNIZED THAT A REVALUATION OF THE EUA (E.G. GREEN DM FROM DM 3.66 TO DM 2.60) AS PROPOSED BY THE EC WOULD FORCE ALL U.S. TOBACCO IMPORTS INTO THE HIGHEST DUTY CATEGORY AND FURTHER DISTORT THE COMPETITIVE SITUATION. THEY INDICATED THEY WOULD INSIST THAT ANY CHANGE IN THE EUA TAKE INTO ACCOUNT THE QUESTION OF THE WRAPPER TARIFF AND THE RESULTING DUTY STRUCTURE. FRG OFFICIALS LISTENED BUT DID NOT COMMENT ON THE U.S. REQUEST FOR A REDUCTION IN THE EC DUTY TO 28 U.A. (I.E. THE LOWEST SPECIFIC RATE NOW APPLIED).

4. MINFIN OFFICIALS STATED THE FRG SUPPORTED A TOBACCO TAX HARMONIZATION POLICY THAT WOULD STRIKE A BALANCE BETWEEN SPECIFIC AND AD VALOREM RATES. THEY WELCOMED THE INCLUSION OF VAT INTO THE BASIS FOR MAKING A SPECIFIC /AD VALOREM TAX SPLIT BECAUSE IT

DEFEATS ANY ATTEMPTS TO CIRCUMVENT THE EFFECTS OF  
SUCH A SPLIT MERELY ON THE BASIS OF EXCISE TAX  
(I.E. BY INCREASING THE VAT). MINFIN OFFICIALS LEFT  
THE IMPRESSION THAT THEY WOULD FIGHT VERY HARD FOR  
A BALANCED TAX POLICY. THE FRG HAD TAKEN A VERY

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STRONG POSITION ON BALANCED TAX HARMONIZATION IN 1971  
AND INDICATED THEY WERE PREPARED TO DO IT AGAIN.

5. THE GERMAN CIGARETTE MANUFACTURERS AND LEAF  
MERCHANTS SUPPORT FULLY THE U.S. INDUSTRY POSITION  
ON THE ABOVE ISSUES. GERMAN INDUSTRY REPRESENTATIVES  
POINTED OUT THAT IN RECENT DISCUSSIONS WITH EC OFFICIALS  
IN BRUSSELS THE QUESTION OF THE WRAPPER TARIFF WAS  
TAKEN UP. REPORTEDLY THERE WAS GENERAL RECOGNITION

THAT THE WRAPPER TARIFF IS OUTDATED AND HAS LONG  
OUTLIVED ITS USEFULNESS. HOWEVER, EC OFFICIALS  
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INDICATED THAT ANY MODIFICATION IN THE WRAPPER TARIFF  
SHOULD BE ON A QUID PRO QUO BASIS.

6. THE U.S. INDUSTRY ALSO CONVEYED TO THE GERMAN TRADE  
THEIR EXTREME DISPLEASURE WITH THE U.S. GOVERNMENT'S  
OFFER TO GREECE AND TURKEY ON ORIENTAL TOBACCO. THEY  
STATED THIS WOULD LEAD TO DEMANDS FROM THE U.S. CIGAR  
INDUSTRY AND ULTIMATELY CONCESSIONS FOR A SIMILAR  
REDUCTION ON SCRAP TOBACCO IMPORTS INTO THE U.S. THE  
U.S. INDUSTRY REPRESENTATIVES STATED THAT IF CON-  
CESSIONS WERE MADE ON ORIENTAL AND SCRAP TOBACCOS, THE  
U.S. WOULD BE A NET LOSER IN THE MTN NEGOTIATIONS  
EVEN IF IT GOT EVERYTHING IT WAS ASKING FOR FROM THE  
EC. U.S. INDUSTRY WILL SEEK TO HAVE THE U.S. OFFER  
ON ORIENTAL TOBACCO WITHDRAWN. THEY MADE IT VERY CLEAR  
THAT THEY WOULD NOT SUPPORT AN MTN PACKAGE UNLESS THE  
PACKAGE CONTAINED A COMMITMENT FROM THE EC ON BALANCED  
TAX HARMONIZATION, EC CONCESSIONS ON THE WRAPPER TARIFF  
AND THE DUTY, AND NO U.S. OFFER ON ORIENTAL TOBACCO.  
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## Message Attributes

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**Channel Indicators:** n/a  
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**Copy:** SINGLE  
**Draft Date:** 26 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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**Executive Order:** N/A  
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**Litigation History:**  
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**Message ID:** e1653096-c288-dd11-92da-001cc4696bcc  
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**Original Handling Restrictions:** n/a  
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**SAS ID:** 2557446  
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**Status:** NATIVE  
**Subject:** TOBACCO TEAM VISIT  
**TAGS:** EAGR, GE, US  
**To:** STATE AGR  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
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**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014